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Presentation to the
Honolulu City Council
Wednesday, March 15, 2006, 10:15 a.m., City Council Chamber

Council Bill No. 18, Relating to Deferral of Real Property Taxes

The Honorable Donovan Dela Cruz, Chair
and Members of the Council

My name is Lance Tanaka, and I am presenting this testimony on behalf of the Hawaii Bankers Association ("HBA"). HBA is a trade organization whose membership includes all commercial banks and thrift institutions doing business in Hawaii.

HBA cannot support the passage of Council Bill No. 18 in its current form.

While we sympathize with elderly homeowners who are finding it difficult to pay the higher City property tax assessments, HBA would like to take this opportunity to outline the following issues in Bill No. 18.

1. SECTION 1: The ordinance discriminates against taxpayers who do not conform to the definition of "certain elderly persons." Arguments can be made that many young homeowners just starting out in life with families and other obligations are equally in need of such relief. Although a young homeowner's income is not fixed as it is with a retiree, it is certainly not guaranteed to increase on a year-to-year basis—or even to keep pace with inflation, rising healthcare costs, and other financial burdens.
2. Sec. 8-__.5: Since approval of a deferral rests with the mortgage holder where the residence is under a mortgage or purchase contract, lenders will bear the burden of verifying that conditions are met and conducting other due diligence, as needed. This creates an additional administrative load on loan processors who must now distinguish qualified homeowners from other mortgagees and track their deferred tax obligations. It is not clear what representations, if any, are being made by the mortgage holder in signing off on the deferral.
3. Sec. 8-__.6: Allowing a tax lien to "...accumulate up to eighty percent of the amount of the claimant's equity value...and...bear interest at the rate of eight percent per year..." could erode the lender's security/equity.
4. Sec. 8-__.7: Upon deferred taxes becoming payable, and following the settlement of tax obligations with the City, lenders may find that their positions have eroded—particularly as property values recede in future years. Lenders base their mortgage rates with the knowledge that loans will perform a certain way and yield certain returns. Bill No. 18 injects uncertainty into the pricing and administering of mortgages. In turn, this uncertainly would have a detrimental effect on the housing market as lenders depend

on the secondary market's purchasing of home loans, whether the purchaser is Fannie Mae, Freddie Mac or Hula Mae. The impact of this ordinance will be most felt by junior lien holders such as those who offer home equity loans. These loans have been instrumental in powering Hawaii's economic engine to the extent that many economists have referred to a home equity loan as an automated teller machine.

Due to the uncertainty and administrative burden that Bill No. 18 adds to the mortgage lending process, we respectively ask that you defer this bill and allow the mortgage industry to work with you in crafting a balanced solution. Thank you for allowing the HBA to present these comments for your consideration.

Lance Tanaka